

W. Scott Randolph
Director – Regulatory Affairs



October 17, 2002

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Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
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**Ex Parte: Federal-State Joint Board on Universal Service, CC Docket No. 96-45;
1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements,
CC Docket No. 98-171; Telecommunications Services for Individuals with Hearing and
Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-
571; Administration of the North American Numbering Plan and North American
Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-
237, NSD File No. L-00-72; Numbering Resource Optimization, CC Docket No. 99-200;
and Telephone Number Portability, CC Docket No. 95-116**

Dear Ms. Dortch:

On October 15, Ann Rakestraw, Neal Bellamy, Dan Harris and the undersigned, met with Eric Einhorn, Paul Garnett, and Narda Jones of the Wireline Competition Bureau to review implementation concerns with per-connection proposals such as those submitted by CoSUS. We discussed how the CoSUS plan does not appear to accommodate several of the services Verizon provides today and plans to provide in the future. We also reviewed various complications with implementing the CoSUS plan, both on an interim and long-term basis.

Today, VZ offers state-tariffed "channelized" services that allow customers to specify the mixture of voice and data channels within a digital pipe such as a DS1 or DS3. Some portion of the individual channels can be used for non-switched data to connect one or more customer locations or an IXC POP while some portion can be used for voice services provided by Verizon such as local business service, PBX trunk, Centrex, intrastate intraLATA WATS. Under the CoSUS proposal, these services would be assessed different connection charges and potentially could be assessed by different entities (LEC or IXC). Thus, it is unclear how these types of services would be handled under the CoSUS plan. We also discussed how the introduction of new technologies in the future, such as "Voice over DSL" and expected future trends in the mix of high capacity services could result in additional complications in how per-connection assessments would be determined.

Verizon has identified a number of implementation issues with respect to the CoSUS proposal, as outlined in the attached material originally submitted in Verizon's *ex parte* of October 3, 2002. Specifically, in two recent *ex partes*, CoSUS suggested "shortcuts" for implementing their proposal. In their September 13, 2002 *ex parte* CoSUS suggested that a carrier could determine the initial count of "connections" by dividing the revenue currently generated from end user USF fees by the proposed \$1 assessment. However, Verizon does not have the underlying level of detail in its billing systems necessary to enable it to calculate the number of connections by service type under this method (i.e., residence, single line business and multi-line business). Similarly, CoSUS' October 10, 2002 *ex parte* suggested an interim approach that would assess \$1 to wireline residence and use a percentage of revenues for business switched services. However, Verizon currently bills

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a standard USF recovery fee to both residential and business customers and would have to implement billing system changes in order to assess residential and business customers under entirely different methods.

We discussed that going forward, Verizon would have to:

- Determine the modifications necessary to our systems and processes once each type of connection is defined;
- Make billing accounting and customer record system changes to populate data on existing services and enable capturing that data on future service orders;
- Educate customer contact personnel on new information to gather from customers in the future;
- Establish a processes to pull data in the required level of detail from our systems for each reporting period; and,
- Notify our existing customer base and field inquiries about higher/different charges.

For Verizon, full implementation of the CoSUS plan could take from six months to a full year. In addition, once such a plan is implemented, reporting to USAC must be done on a quarterly, rather than monthly, basis to minimize costs and required resources. Verizon would also expect to be able to recover these initial implementation as well as ongoing administrative costs from customers via a markup to the contribution assessment.

Finally, we noted that in various submissions, CoSUS has relied on data that reflected all private line services (local, intrastate, and interstate) in its estimates of connections. However, presumably the CoSUS plan would assess only interstate special access services. If so, CoSUS' projections of the impact of their plan on business and special access customers may be grossly understated.

Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,



W. Scott Randolph

Attachment

cc: Eric Einhorn
Paul Garnett
Narda Jones

Implementation Issues with Connection-Based Universal Service Contribution Methods

October 2002



The Commission should not attempt to implement a connection-based universal service contribution methodology by 2Q2003.

- a) The record does not yet contain a reliable estimate of the initial impact on all consumers, particularly multiline business, or the future impact, *e.g.*, 2006.
(Compare *ex partes* of AT&T December 21, 2001 to Verizon September 5 to AT&T September 20)
- b) Even if future multiline business charges could be accurately predicted, there is no evidence on the record regarding what businesses currently pay, or how the new charges could skew market-based purchasing decisions.
- c) Adopting a connection-based method without a sound understanding of consumer impact would not be reasoned decision-making.
- d) Even supporters of COSUS admit that full implementation would be problematic and time consuming:
- AT&T has revealed "that it has difficulty implementing a portion of the COSUS plan."
(AT&T September 20)
 - Sprint says 9-12 months would be required (Sprint September 17) to fully implement the COSUS proposal.
- e) Notwithstanding that any lawful connection-based method must assess IXC connections, Sprint claims implementation of an IXC connection charge would entail many problems (Sprint September 17)
- f) A bifurcated implementation approach (single line now, MLB later) would not solve anything, and could lead to unanticipated huge shifts in recovery by class of consumer.

Before implementing a connection-based methodology, a number of critical issues must be addressed and solved:

- a) what are the types of connections to which a contribution charge applies (*e.g.*, interstate special access and dynamic bandwidth services);
- b) how is each type of connection defined so as to achieve consistent counts and ensure assessments are competitively neutral;
- c) does historical connection data exist at the needed level of detail to serve as the basis for projections of connection quantities;
 - how long will it take to generate, gather, and summarize historical connection data, including OMB approval of the necessary USAC forms
- d) determine whether USAC or contributing firms will forecast the second (and subsequent) quarterly connection units, and how long it will take to prepare a reliable forecast;
- e) determine how to address the introduction of an additional half-month delay in USAC's collection of the April payments from the carriers,¹ and
- f) if a bifurcated implementation approach is used, how to develop the interim revenue surcharge to be applied to interstate special access.

¹ AT&T *ex parte*, September 9, 2002, at n.2.

Data Needed to Implement the COSUS Proposal

Adoption of the COSUS proposal would require the collection of historical data for the following items upon which forecasts could be based:

- a) Lifeline residential connections
- b) Non-Lifeline residential connections
- c) Business single line connections
- d) Business multi-line switched connections not including Centrex
- e) Centrex connections
- f) CRMS connections
- g) Paging connections
- h) Interstate special access end user revenues
- i) Uncollectible factor or factors²

² Note that the uncollectible factor or factors is an issue since some companies might argue that various customer classes have different uncollectible rates (may be different for wireless, wireline single line, wireline MLB, wireline special access customers, paging).

Data Needed to Implement Other Connection-Based Methods

Adoption of a variant of the COSUS proposal (*e.g.*, BellSouth/SBC, Joint Board, FNPRM) would also require other historical data and forecast elements:

- a) DSL connections
- b) Cable Modem and all other broadband connections (*e.g.*, fixed wireless)
- c) One way versus two way pager connections
- d) IXC PIC connections
- e) LEC no-PIC connections
- f) Dial around interstate revenues
- g) Pre-paid calling card revenues
- h) Uncollectible factor or factors³

³ An uncollectible factor for IXCs would also be needed.

Additional Concerns Regarding Implementation of a Connection-Based Method

- All contributors must modify their customer record and/or accounting systems to capture connection data at the needed level of detail.
- Methods must be established to count the number of connections for special access services that allow the end user to dynamically configure the bandwidth to meet changing needs on a hourly/daily basis.
- Contributing firms must examine each special access circuit record to determine whether channel terminations (local loop portion of circuit) are end user connections or connections to interexchange carrier POPs, and modify customer account and/or billing records to capture that information for all existing circuits, and to gather and retain that same information for all new services ordered.
- USAC must establish the reporting format, create forms, data collection processes, and audit procedures for each defined special access connection.
- A reasonable reporting interval must be created that balances the burden on contributors with the need for current information. The proposed monthly reporting interval will be overly burdensome and consume enormous resources.
- Audit methods and procedures must be developed to ensure consistent and accurate reporting for connections that have never before been counted.

IXC Connection Contribution Issues

IXC contributions must be included in any lawful connection-based method.

Under a connection-based method that includes IXC contributions, IXCs must develop, bill and administer an IXC connection charge.

Sprint complains about the level of administrative burdens and costs associated with an IXC connection contribution element (September 17 *ex parte*), but COSUS would impose those burdens on LECs, paging companies, and CMRS providers.

- Sprint claims IXCs would face great difficulties in implementing an IXC connection charge.
- LECs, paging companies and CMRS providers would face equivalent or greater difficulties in their revisions to administrative and billing systems, associated costs, and the diversion of resources from revenue-producing projects.